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CITY OF BATESVILLE

FINANCIAL STATEMENT

SEPTEMBER 30, 2004

William H. Polk & Co.

Certified Public Accountant

A Professional Association

105 Public Square

Batesville, MS 38606

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WILLIAM H. POLK & CO.
CERTIFIED PUBLIC ACCOUNTANTS

A Professional Association

WILLIAM H. POLK, C.P.A.
MICKEY R. ALDRIDGE, C.P.A.
ROBERT E. CRAWFORD, C.P.A.

FRANCES LIVINGSTON, C.P.A.
AMY D. BYARS, C.P.A.
ROBERT W. WADSWORTH, C.P.A.
RACHEL M. KIRKLAND, C.P.A.
AUSTIN E. JOYNER, C.P.A.
MANDY ALFORD, C.P.A.

105 PUBLIC SQUARE
BATESVILLE, MISSISSIPPI 38606
TELEPHONE (662) 563-8661
FAX (662) 563-8666

MEMBERS:
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
MISSISSIPPI SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
DIVISION FOR CPA FIRMS PRIVATE COMPANIES PRACTICE SECTION

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Board of Aldermen
City of Batesville, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Batesville, Mississippi as of and for the year ended September 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Batesville, Mississippi's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Batesville, Mississippi, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2005, on our consideration of City of Batesville, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 45 through 48 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Wm. H. Polk & Co.

January 17, 2005

**CITY OF BATESVILLE, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

An overall review of the City's financial activities and performance for the year ending September 30, 2004 is provided in this Discussion and Analysis of the City of Batesville. The discussion and analysis looks at the financial performance as a whole, but it is suggested that the basic financial statements be reviewed to help in the understanding.

FINANCIAL HIGHLIGHTS

Total assets decreased approximately \$ 337,000 or 0.7% from 2003.

Total liabilities decreased approximately \$1,602,000 or 7.8% from 2003.

Total net assets increased approximately \$1,265,000 or 4.2% as a result of this year's operations.

The governmental expenses exceed revenues by approximately \$443,000 before grants and transfers; and the City's business-type revenues exceeded related expenses by approximately \$772,000 before transfers.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 10 and 12) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 13. For governmental activities, these financial statements explain the financing of these services, plus they report the City's operations in more detail by providing information on the City's most significant funds.

Reporting the City as a Whole

The City's analysis as a whole will begin on page 5. A question often asked: "Is the City as a whole better or worse off as a result of the 2004 activities?" To help with the answer to this question, a look at the Statement of Net Assets and the Statement of Activities will provide the answer. These statements include all assets and liabilities using the accrual basis of accounting,

which is similar to the accounting used by most private-sector companies. The current year's revenues and expenses are all taken into account regardless of when cash is received or paid.

These statements report the City's net assets and any changes to those assets. The change in assets tells the reader whether the City's financial position as a whole has diminished or improved. Non-financial information such as changes in the tax base and the condition of the capital assets will also need to be evaluated.

The Statement of Net Assets and the Statement of Activities are divided into two kinds of activities:

Governmental activities - Basic services are reported here. These include police, fire, public works, parks departments and the general administration. These are financed mainly by property taxes, franchise fees and state and federal grants.

Business-type activities - Water, sewer and gas department fees are reported here. These fees will cover most, if not all, of these activities.

Reporting the City's Most Significant Funds

On page 6 the fund financial statements provide detailed information about only the most significant funds. Some funds are required by state law or bonds covenants. Many of the other funds established to control and manage money for particular projects or to meet certain legal responsibilities are set up by the City Board. The two kinds of funds the City uses are governmental and proprietary and do not use the same accounting approaches.

Governmental funds - Most of the City's basic services are reported in this fund type, which show the money flowing in and out of those funds and then the balances left at year-end that are available for spending. These funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can be readily converted to cash. These fund statements provide a detailed short-term view of the general government operations and the basic service it provides. This information also helps you determine whether there are more or fewer financial resources available to be used in the near future to finance the City's programs. The differences between governmental activities and governmental funds are described in reconciliations adjacent to the fund financial statements.

Proprietary funds - When the customers are charged for the provided services these services are generally reported as proprietary funds. These funds are reported in the same way all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds are the same as the business-type activities reported in the government-wide statements but provide more detail and additional information, such as cash flows.

THE CITY AS A WHOLE

(Table 1)
Net Assets
2004

	Governmental Activities		Business-Type Activities		Totals		Increase (Decrease)	Percentage Change
	2004	2003	2004	2003	2004	2003		
Current and other assets	\$ 9,340,895	\$ 9,507,108	\$ 2,609,772	\$ 8,081,215	\$ 11,950,667	\$ 17,588,323	\$ (5,637,656)	-32.05%
Capital assets	14,761,819	14,052,009	24,163,320	19,370,739	38,925,139	33,422,748	5,502,391	16.46%
Total assets	24,102,714	23,559,117	26,773,092	27,451,954	50,875,806	51,011,071	(135,265)	-0.27%
Long-term debt	(4,531,024)	(4,240,628)	(10,968,798)	(11,931,713)	(15,499,822)	(16,172,341)	(672,519)	-4.16%
Other liabilities	(907,423)	(1,218,304)	(2,650,859)	(3,190,788)	(3,558,282)	(4,409,092)	(850,810)	-19.30%
Total liabilities	(5,438,447)	(5,458,932)	(13,619,657)	(15,122,501)	(19,058,104)	(20,581,433)	(1,523,329)	-7.40%
Net assets:								
Invested in capital assets, net of debt	9,755,163	9,446,681	11,431,177	10,360,129	21,186,340	19,806,810	1,379,530	6.96%
Restricted	3,687,408	3,626,434	30,000	30,000	3,717,408	3,656,434	60,974	1.67%
Unrestricted	5,221,696	5,027,070	1,692,258	1,939,324	6,913,954	6,966,394	(52,440)	-0.75%
Total net assets	\$ 18,664,267	\$ 18,100,185	\$ 13,153,435	\$ 12,329,453	\$ 31,817,702	\$ 30,429,638	\$ 1,388,064	4.56%

The City's total assets decreased \$(135,000) during 2004 with business-type activities showing a decrease of \$(679,000) and governmental activities showing an increase of \$544,000. The major changes were a \$5.5 million increase in the capital assets and a \$5 million decrease in cash.

The City's total liabilities decreased \$1.5 million, mainly due to business-type activities payments of long-term debt along with the reduction of accounts payable associated with the construction costs of the civic center building.

The City's net assets increased \$1.4 million due to net excess revenues for both activity types.

Table 2 shows the Changes in Net Assets for the September 30, 2004 year end. A comparative analysis of government-wide data is as follows:

(Table 2)
Changes in Net Assets
2004

	Governmental Activities		Business-Type Activities		Totals		Increase (Decrease)	Percentage Change
	2004	2003	2004	2003	2004	2003		
Program Revenues:								
Charges for services	\$ 433,851	\$ 495,020	\$ 6,115,423	\$ 5,893,091	\$ 6,549,274	\$ 6,388,111	\$ 161,163	2.52%
Grants and donations	1,032,649	685,869	600	-	1,033,249	685,869	347,380	50.65%
General Revenues:								
Property taxes	2,019,723	1,899,280	129,837	-	2,149,560	1,899,280	250,280	13.18%
Other taxes and other	<u>4,789,633</u>	<u>4,470,474</u>	<u>84,455</u>	<u>51,186</u>	<u>4,874,088</u>	<u>4,521,660</u>	<u>352,428</u>	<u>7.79%</u>
Total revenues	<u>8,275,856</u>	<u>7,550,643</u>	<u>6,330,315</u>	<u>5,944,277</u>	<u>14,606,171</u>	<u>13,494,920</u>	<u>1,111,251</u>	<u>8.23%</u>
Program Expenses:								
General government	790,691	882,463	-	-	790,691	882,463	(91,772)	-10.40%
Public safety	3,793,525	3,601,590	-	-	3,793,525	3,601,590	191,935	5.33%
Streets	1,689,603	1,425,440	-	-	1,689,603	1,425,440	264,163	18.53%
Other	1,189,582	1,211,666	-	-	1,189,582	1,211,666	(22,084)	-1.82%
Interest on long-term debt	274,061	280,233	-	-	274,061	280,233	(6,172)	-2.20%
Water and sewer department	-	-	2,371,042	2,571,291	2,371,042	2,571,291	(200,249)	-7.79%
Gas department	-	-	2,852,218	3,054,116	2,852,218	3,054,116	(201,898)	-6.61%
Other business-type	<u>-</u>	<u>-</u>	<u>283,073</u>	<u>514,885</u>	<u>283,073</u>	<u>514,885</u>	<u>(231,812)</u>	<u>-45.02%</u>
Total expenses	<u>7,737,462</u>	<u>7,401,392</u>	<u>5,506,333</u>	<u>6,140,292</u>	<u>13,243,795</u>	<u>13,541,684</u>	<u>(297,889)</u>	<u>-2.20%</u>
Increase (decrease) in net assets	<u>\$ 538,394</u>	<u>\$ 149,251</u>	<u>\$ 823,982</u>	<u>\$ (196,015)</u>	<u>\$ 1,362,376</u>	<u>\$ (46,764)</u>	<u>\$ 1,409,140</u>	<u>-3013.30%</u>

The City's governmental activities continue to be funded by sources other than property taxes, which made up only 24% of the total revenues. The major expense activities were public safety and streets, which respectively comprise 47% and 22% of total expenses. Providing the services our residents expect is our commitment.

While business-type activities are accounted for similarly to businesses and are primarily supported by user fees, the City attempts to keep these fees as low as possible.

THE CITY'S FUNDS

As the year ended, the city's governmental funds reported a combined fund balance of \$4,410,684, which is \$203,039 above last year's total of \$4,207,645. The primary reason for the increase was an increase in operating efficiency along with the issuance of additional debt.

General Fund Budgeting Highlights

The City's budget is prepared according to Mississippi law and is based on accounting for certain transactions on a basis of cash receipts, disbursement and encumbrances. One of the most significant budgeted funds is the General Fund.

During 2004 the City's general fund budget was amended. All recommendations for a change come from the department heads to the City Clerk for review before going to the Mayor and Board of Aldermen for consideration. The City does not allow budget changes that modify line items within any department without Board approval. The General Fund is closely monitored for possible revenue shortfalls or over spending, since it supports so many departments. The General Fund original budgeted revenues were \$9,525,200; with the final budgeted amount being \$10,022,700; and with 8,279,000 in actual revenue collections. The shortage was caused by the failure to obtain \$428,000 in grants, \$521,000 in transfers, and \$1,223,000 in additional debt. A \$498,000 increase in sales taxes helped offset these shortages. The General Fund's original budgeted expenditures of \$10,912,000 were amended to \$10,923,700, with actual expenditures of \$7,950,000. The main reason for the shortage was the failure to transfer \$1,058,000 and the general reduction of expenses by various departments.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2004, the City has nearly \$39,000,000 invested in a large range of capital assets, including police and fire equipment, park facilities, water and sewer lines, roads, gas lines and buildings. This amount represents a net increase of almost \$6,000,000, or 18% over last year.

(Table 3)
Capital Assets at Year-end
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Totals		Increase (Decrease)	Percentage Change
	2004	2003	2004	2003	2004	2003		
Land	\$ 1,175,933	\$ 1,115,933	\$ 438,500	\$ 438,500	\$ 1,614,433	\$ 1,554,433	\$ 60,000	3.86%
Construction in progress	114,963	725,937	9,327,116	4,252,510	9,442,079	4,978,447	4,463,632	89.66%
Buildings and improvements	2,991,307	2,811,177	53,963	59,752	3,045,270	2,870,929	174,341	6.07%
Equipment	1,448,531	1,575,358	286,924	155,286	1,735,455	1,730,644	4,811	0.28%
Infrastructure	9,031,085	7,823,604	14,056,817	14,144,691	23,087,902	21,968,295	1,119,607	5.10%
Totals	<u>\$ 14,761,819</u>	<u>\$ 14,052,009</u>	<u>\$ 24,163,320</u>	<u>\$ 19,050,739</u>	<u>\$ 38,925,139</u>	<u>\$ 33,102,748</u>	<u>\$ 5,822,391</u>	17.59%

The City of Batesville during the fiscal year of 2003-04 has seen a year when many of our projects have been completed or are near completion.

The completion of the Civic Center slowed down some and is not due to be completed until approximately November 2004. Although we have experienced the slowdown, it has not dampened our excitement. The cost has increased from approximately \$8,500,000 to approximately \$9,600,000. Some of these additional funds were obtained from the Tourism Fund and the General Fund.

Also in the Civic Center area, Civic Center Drive and Lowe's Road are two other projects that have been completed.

The construction of the downtown park has moved along nicely and achieved the facelift we desired for our downtown area. There have not been cost overruns. We did receive an additional \$40,000 to our grant and donations and brick sales have come in extremely well, totaling approximately \$60,000. Our dedication is tentatively set for April, 2005.

Walter Trussell Park has a new soccer field added this year at a cost of approximately \$70,000.

The Patton Lane Community Center was completed this year and is now in operation; as well as the Johnson Subdivision water and sewer project.

Debt

At year-end, the City had \$16,635,653 in bonds and notes outstanding versus \$17,131,603 last year - a decrease of \$495,950.

(Table 4)
Outstanding Debt at Year-end

	Governmental Activities		Business-Type Activities		Totals		Increase (Decrease)	Percentage Change
	2004	2003	2004	2003	2004	2003		
General obligation bonds	\$ 2,385,000	\$ 2,665,000	\$ -	\$ -	\$ 2,385,000	\$ 2,665,000	\$ (280,000)	-10.51%
Revenue bonds and notes	<u>2,450,449</u>	<u>1,847,981</u>	<u>11,800,204</u>	<u>12,618,622</u>	<u>14,250,653</u>	<u>14,466,603</u>	<u>(215,950)</u>	-1.49%
Totals	<u>\$ 4,835,449</u>	<u>\$ 4,512,981</u>	<u>\$ 11,800,204</u>	<u>\$ 12,618,622</u>	<u>\$ 16,635,653</u>	<u>\$ 17,131,603</u>	<u>\$ (495,950)</u>	-2.89%

New debt consisted of \$27,000 in capital leases of police cars, and \$750,000 in tax increment bonds for street additions. More detailed information about the City's long-term liabilities is presented in Note 7 to the financial statements.

Not included above but reported as long-term debt in the financial statements is the accumulated employee leave time that would be paid as employees take leave or retire. Under GAAP reporting, this liability must be reported as a compensated absence at year-end, due to contract language to the effect that the employee has "earned" this compensation.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2005 budget, tax rates, and fees that will be charged for the business-type activities. To assist in the financing of City services and expansion projects, property tax millage rates were increased 4 mills to a total of 29.02 mills, and water, gas and garbage rates were increased 4%, 2%, and \$1.00, respectively.

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the City's finances and to show the City's accountability for the money it received. If you have any questions about this report or need additional financial information, contact the City Clerk at 103 College Street, Batesville, MS 38606.

CITY OF BATESVILLE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004

	Governmental Activities	Business-type Activities	Total
Assets			
Cash	\$ 863,326	\$ 501,881	\$ 1,365,207
Temporary cash investments	300,000	276,137	576,137
Accounts receivable	11,847	165,191	177,038
Current portion of loans receivables, (Note 4)	170,665	0	170,665
Intergovernmental receivables, (Note 4)	812,491	0	812,491
Property and franchise tax receivable	2,221,792	129,837	2,351,629
Inventory	320,000	394,741	714,741
Prepaid items	128,308	55,112	183,420
Due from other funds, (Note 8)	(335,175)	335,175	0
Restricted assets, (Note 5):			
Cash	1,323,083	220,368	1,543,451
Temporary cash investments	1,476,000	295,863	1,771,863
Loans receivable, non-current, (Note 4)	1,997,190	0	1,997,190
Deferred bond issue costs	51,368	235,467	286,835
Capital assets, net of accumulated depreciation, (Note 6)	<u>14,761,819</u>	<u>24,163,320</u>	<u>38,925,139</u>
 Total assets	 <u>24,102,714</u>	 <u>26,773,092</u>	 <u>50,875,806</u>
 Liabilities			
Accounts payable and accrued expenses	406,654	1,509,763	1,901,940
Current portion of long-term debt, (Note 7)	467,085	671,901	1,153,463
Current portion of deferred refunding loss	0	(17,036)	(17,036)
Liabilities payable from restricted assets:			
Accounts payable and accrued expenses	0	9,535	9,535
Builder compliance bonds	33,684	0	33,684
Current portion of long-term debt, (Note 7)	0	180,833	180,833
Customer deposits	0	295,863	295,863
Non-current liabilities:			
Bonds payable, (Note 7)	2,417,675	7,805,000	10,222,675
Deferred refunding loss	0	(34,728)	(34,728)
Notes and leases payable, (Note 7)	1,950,689	3,142,470	5,093,159
Compensated absences	145,605	56,056	201,661
Deferred revenue	<u>17,055</u>	<u>0</u>	<u>17,055</u>
 Total liabilities	 <u>5,438,447</u>	 <u>13,619,657</u>	 <u>19,058,104</u>

Continued

CITY OF BATESVILLE
STATEMENT OF NET ASSETS - continued
SEPTEMBER 30, 2004

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 9,755,163	\$ 11,431,177	\$ 21,186,340
Restricted for:			
Economic development	1,731,729	0	1,731,729
Tourism development	1,391,331	0	1,391,331
Debt service	152,467	30,000	182,467
Capital improvements	238,215	0	238,215
Other	173,666	0	173,666
Unrestricted	<u>5,221,696</u>	<u>1,692,258</u>	<u>6,913,954</u>
 Total net assets	 <u>\$ 18,664,267</u>	 <u>\$ 13,153,435</u>	 <u>\$ 31,817,702</u>

CITY OF BATESVILLE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004

FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Program Revenues	
			Operating Grants and Contributions	Capital Grants and Contributions
Government activities:				
General government	\$ 790,691	\$ 177,215	\$ 77,889	\$ 75,000
City court	173,017	891	0	0
Police	2,685,883	167,413	123,919	16,794
Fire	934,625	7,456	4,500	111,382
Streets	1,689,603	0	0	294,686
Sanitation	171,955	0	10,306	0
Library	275,531	3,633	0	5,744
Parks	449,501	31,875	0	312,429
Code	195,005	45,368	0	0
Economic development	97,590	0	0	0
Interest on long-term debt	<u>274,061</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total government activities	<u>7,737,462</u>	<u>433,851</u>	<u>216,614</u>	<u>816,035</u>
Business-type activities:				
Water	1,098,990	1,327,166	0	0
Sewer	1,272,052	926,913	0	0
Gas	2,852,218	3,655,622	0	0
Civic Center	41,121	0	600	0
Solid waste	<u>241,952</u>	<u>205,722</u>	<u>0</u>	<u>0</u>
Total business-type activities	<u>5,506,333</u>	<u>6,115,423</u>	<u>600</u>	<u>0</u>
Total primary government	<u>\$ 13,243,795</u>	<u>\$ 6,549,274</u>	<u>\$ 217,214</u>	<u>\$ 816,035</u>

General revenues:
 Property taxes
 Sales and tourism taxes
 Franchise taxes
 Other taxes and other
 Unrestricted interest income
 (Loss) on disposition of capital assets
Transfers, net

Total general revenues and transfers

Change in net assets
Net assets, beginning
 Prior period adjustment (Note 12)

Net assets, ending

See accompanying notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-type Activities	Total
\$ (460,587)	\$ 0	\$ (460,587)
(172,126)	0	(172,126)
(2,377,757)	0	(2,377,757)
(811,287)	0	(811,287)
(1,394,917)	0	(1,394,917)
(161,649)	0	(161,649)
(266,154)	0	(266,154)
(105,197)	0	(105,197)
(149,637)	0	(149,637)
(97,590)	0	(97,590)
<u>(274,061)</u>	<u>0</u>	<u>(274,061)</u>
<u>(6,270,962)</u>	<u>0</u>	<u>(6,270,962)</u>
0	228,176	228,176
0	(345,139)	(345,139)
0	803,404	803,404
0	(40,521)	(40,521)
<u>0</u>	<u>(36,230)</u>	<u>(36,230)</u>
<u>0</u>	<u>609,690</u>	<u>609,690</u>
<u>(6,270,962)</u>	<u>609,690</u>	<u>(5,661,272)</u>
2,019,723	129,837	2,149,560
4,146,522	0	4,146,522
214,174	0	214,174
271,635	0	271,635
208,411	33,346	241,757
0	0	0
<u>(51,109)</u>	<u>51,109</u>	<u>0</u>
<u>6,809,356</u>	<u>214,292</u>	<u>7,023,648</u>
538,394	823,982	1,362,376
18,100,185	12,329,453	30,429,638
<u>25,688</u>	<u>0</u>	<u>25,688</u>
<u>\$ 18,664,267</u>	<u>\$ 13,153,435</u>	<u>\$ 31,817,702</u>

See accompanying notes to financial statements.

CITY OF BATESVILLE
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2004

	General Fund	Economic Development Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 669,610	\$ 0	\$ 193,716	\$ 863,326
Temporary cash investments	300,000	0	0	300,000
Current portion of loans receivable	0	43,951	74,419	118,370
Property and franchise tax receivable	2,133,016	0	88,776	2,221,792
Due (to) from governmental funds	4,493	(3,572)	(921)	0
Due (to) from proprietary funds	(152,675)	(182,500)	0	(335,175)
Intergovernmental receivables	673,831	0	138,660	812,491
Restricted cash	73,899	24,938	1,224,246	1,323,083
Restricted temporary cash investments	198,000	1,230,000	48,000	1,476,000
Non-current loans receivable	0	298,912	1,598,106	1,897,018
Inventory	0	320,000	0	320,000
	<u>0</u>	<u>320,000</u>	<u>0</u>	<u>320,000</u>
Total assets	<u>\$ 3,900,174</u>	<u>\$ 1,731,729</u>	<u>\$ 3,365,002</u>	<u>\$ 8,996,905</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued expenses	\$ 336,184	\$ 0	\$ 23,316	\$ 359,500
Deferred revenues	2,098,669	298,912	1,795,456	4,193,037
Liabilities payable from restricted assets:				
Accounts payable and accrued expenses	0	0	0	0
Builder compliance bonds held	33,684	0	0	33,684
	<u>33,684</u>	<u>0</u>	<u>0</u>	<u>33,684</u>
Total liabilities	<u>2,468,537</u>	<u>298,912</u>	<u>1,818,772</u>	<u>4,586,221</u>
FUND BALANCES				
Reserved for economic development	0	1,112,817	1,298,984	2,411,801
Reserved for debt service	0	0	25,437	25,437
Reserved for capital improvements	238,215	0	(17,078)	221,137
Reserved for other	0	320,000	48,768	368,768
Unreserved	1,193,422	0	190,119	1,383,541
	<u>1,193,422</u>	<u>0</u>	<u>190,119</u>	<u>1,383,541</u>
Total fund balances	<u>1,431,637</u>	<u>1,432,817</u>	<u>1,546,230</u>	<u>4,410,684</u>
Total liabilities and fund balances	<u>\$ 3,900,174</u>	<u>\$ 1,731,729</u>	<u>\$ 3,365,002</u>	<u>\$ 8,996,905</u>

See accompanying notes to financial statements.

**CITY OF BATESVILLE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004**

Total fund balance-total governmental funds	\$ 4,410,684
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	14,761,819
Receivables that are not collected within 60 days of year end, as designated by the City, are not deemed available to pay for current-period expenditures and therefore are deferred by the funds	4,175,982
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds	(4,981,054)
Prepaid expenses and bond issue costs are not financial resources and therefore are not reported in the funds	179,676
Other	<u>117,160</u>
Net assets of governmental activities	<u>\$ 18,664,267</u>

CITY OF BATESVILLE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	General Fund	Economic Development Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 1,862,180	\$ 0	\$ 87,545	\$ 1,949,725
Road and bridge taxes	247,128	0	0	247,128
Licenses and permits	109,013	0	0	109,013
Intergovernmental revenue:				
Federal grants	119,951	0	174,078	294,029
State shared revenues:				
Grants	363,426	0	171,438	534,864
Sales tax	3,406,908	0	0	3,406,908
Liquor privilege taxes	8,100	0	0	8,100
Fire protection	30,391	0	0	30,391
Gasoline tax	10,306	0	0	10,306
General municipal aid	3,708	0	0	3,708
Homestead reimbursement	69,123	0	0	69,123
Tourism tax	0	0	739,614	739,614
Franchise tax	214,174	0	0	214,174
Police fines	264,772	0	0	264,772
Parks and recreation	24,272	0	0	24,272
Fire department revenue-local	7,456	0	0	7,456
Interest income	10,929	39,178	13,653	63,760
Rents	9,000	0	190,655	199,655
Contributions	56,566	0	4,500	61,066
Other	112,665	52,241	23,264	188,170
Total revenues	<u>6,930,068</u>	<u>91,419</u>	<u>1,404,747</u>	<u>8,426,234</u>
EXPENDITURES				
Current:				
General government	783,080	0	11,296	794,376
City court	168,141	0	0	168,141
Police	2,874,612	0	0	2,874,612
Fire	790,976	0	73,344	864,320
Streets	2,183,682	0	90,711	2,274,393
Sanitation	182,646	0	0	182,646
Library	259,604	0	1,260	260,864
Parks	438,704	0	178,028	616,732
Code	194,366	0	0	194,366
Economic development	0	5,941	91,649	97,590
Debt service:				
Principal	0	0	347,325	347,325
Interest	0	0	271,198	271,198
Paying agent fees	0	0	2,863	2,863
Total expenditures	<u>7,875,811</u>	<u>5,941</u>	<u>1,067,674</u>	<u>8,949,426</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(945,743)</u>	<u>85,478</u>	<u>337,073</u>	<u>(523,192)</u>
continued				

See accompanying notes to financial statements.

CITY OF BATESVILLE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS - continued
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	<u>General Fund</u>	<u>Economic Development Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	\$ 626,533	\$ 0	\$ 314,664	\$ 941,197
Transfers to other funds	(159,019)	0	(833,287)	(992,306)
Sale of assets	0	0	0	0
Long term debt issued	<u>777,340</u>	<u>0</u>	<u>0</u>	<u>777,340</u>
Net other financing sources (uses)	<u>1,244,854</u>	<u>0</u>	<u>(518,623)</u>	<u>726,231</u>
 Net change in fund balances	 299,111	 85,478	 (181,550)	 203,039
 Fund balances, beginning	 1,132,526	 1,698,492	 1,727,780	 4,558,798
Correction of prior period error (Note 12)	<u>0</u>	<u>(351,153)</u>	<u>0</u>	<u>(351,153)</u>
 Fund balances, ending	 <u>\$ 1,431,637</u>	 <u>\$ 1,432,817</u>	 <u>\$ 1,546,230</u>	 <u>\$ 4,410,684</u>

CITY OF BATESVILLE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Net changes in fund balances – total governmental funds	\$	203,039
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		709,811
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(51,987)
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The proceeds of long-term debt provides financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.		<u>(322,469)</u>
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Change in net assets of governmental activities	\$	<u><u>538,394</u></u>
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CITY OF BATESVILLE
STATEMENT OF FUND NET ASSETS-PROPRIETARY FUNDS
SEPTEMBER 30, 2004

	Water And Sewer Fund	Gas Fund	Civic Center Fund	Non-Major Fund	Total Enterprise Funds
ASSETS					
Current assets:					
Cash	\$ 298,974	\$ 16,380	\$ 186,527	\$ 0	\$ 501,881
Temporary cash investments	51,100	225,037	0	0	276,137
Accounts receivable	48,364	116,467	0	360	165,191
Property tax receivable	0	0	129,837	0	129,837
Inventory	112,741	282,000	0	0	394,741
Prepaid items	41,080	12,458	1,574	0	55,112
Due from other funds-governmental	(620)	98,670	182,500	54,625	335,175
Due from other funds-enterprise	41,279	(6,673)	0	(34,606)	0
Total current assets	<u>592,918</u>	<u>744,339</u>	<u>500,438</u>	<u>20,379</u>	<u>1,858,074</u>
Restricted assets (Note 5):					
Cash	220,368	0	0	0	220,368
Temporary cash investments	<u>115,900</u>	<u>179,963</u>	<u>0</u>	<u>0</u>	<u>295,863</u>
Total restricted assets	<u>336,268</u>	<u>179,963</u>	<u>0</u>	<u>0</u>	<u>516,231</u>
Non-current assets:					
Deferred bond issue costs	55,504	0	179,963	0	235,467
Capital assets, net (Note 6)	<u>13,229,477</u>	<u>1,417,876</u>	<u>9,515,967</u>	<u>0</u>	<u>24,163,320</u>
Total non-current assets	<u>13,284,981</u>	<u>1,417,876</u>	<u>9,695,930</u>	<u>0</u>	<u>24,398,787</u>
Total assets	<u>14,214,167</u>	<u>2,342,178</u>	<u>10,196,368</u>	<u>20,379</u>	<u>26,773,092</u>

Continued

See accompanying notes to financial statements.

CITY OF BATESVILLE
STATEMENT OF FUND NET ASSETS-PROPRIETARY FUNDS - continued
SEPTEMBER 30, 2004

	Water And Sewer Fund	Gas Fund	Civic Center Fund	Non-Major Fund	Total Enterprise Funds
LIABILITIES					
Current liabilities:					
Accounts payable and accrued expenses	\$ 134,596	\$ 296,420	\$ 1,058,368	\$ 20,379	\$ 1,509,763
Current portion of long-term debt (Note 7)	407,401	0	264,500	0	671,901
Current portion of deferred refunding loss	(17,036)	0	0	0	(17,036)
Total current liabilities	<u>524,961</u>	<u>296,420</u>	<u>1,322,868</u>	<u>20,379</u>	<u>2,164,628</u>
Liabilities payable from restricted assets:					
Accounts payable and accrued expenses	9,535	0	0	0	9,535
Current portion of long-term debt (Note 7)	180,833	0	0	0	180,833
Customer deposits	<u>115,900</u>	<u>179,963</u>	<u>0</u>	<u>0</u>	<u>295,863</u>
Total liabilities payable from restricted assets	<u>306,268</u>	<u>179,963</u>	<u>0</u>	<u>0</u>	<u>486,231</u>
Non-current liabilities:					
Bonds payable (Note 7)	1,040,000	0	6,765,000	0	7,805,000
Deferred refunding loss	(34,728)	0	0	0	(34,728)
Notes and leases payable (Note 7)	3,084,470	0	58,000	0	3,142,470
Compensated absences	<u>37,964</u>	<u>18,092</u>	<u>0</u>	<u>0</u>	<u>56,056</u>
Total non-current liabilities	<u>4,127,706</u>	<u>18,092</u>	<u>6,823,000</u>	<u>0</u>	<u>10,968,798</u>
Total liabilities	<u>4,958,935</u>	<u>494,475</u>	<u>8,145,868</u>	<u>20,379</u>	<u>13,619,657</u>
NET ASSETS					
Invested in capital assets, net of related debt	8,568,537	1,417,876	1,444,764	0	11,431,177
Restricted for debt service	30,000	0	0	0	30,000
Unrestricted	<u>656,695</u>	<u>429,827</u>	<u>605,736</u>	<u>0</u>	<u>1,692,258</u>
Total net assets	<u>\$ 9,255,232</u>	<u>\$ 1,847,703</u>	<u>\$ 2,050,500</u>	<u>\$ 0</u>	<u>\$13,153,435</u>

See accompanying notes to financial statements.

CITY OF BATESVILLE
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS-PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Water And Sewer Fund	Gas Fund	Civic Center Fund	Non-Major Fund	Total Enterprise Funds
OPERATING REVENUES					
Charges for sales and services:					
Water sales	\$ 1,286,111	\$ 0	\$ 0	\$ 0	\$ 1,286,111
Sewer fees	901,855	0	0	0	901,855
Gas sales	0	3,612,602	0	0	3,612,602
Sanitation fees	0	0	0	202,061	202,061
Other	66,113	43,020	600	3,661	113,394
Property taxes	<u>0</u>	<u>0</u>	<u>129,837</u>	<u>0</u>	<u>129,837</u>
Total operating revenues	<u>2,254,079</u>	<u>3,655,622</u>	<u>130,437</u>	<u>205,722</u>	<u>6,245,860</u>
OPERATING EXPENSES					
Natural gas purchases	0	2,211,394	0	0	2,211,394
Materials and supplies	193,771	63,838	1,467	0	259,076
Salaries and benefits	762,508	375,753	0	0	1,138,261
Professional services	114,001	61,997	11,172	240,015	427,185
Utilities	209,295	11,425	5,218	0	225,938
Depreciation and amortization	677,529	61,963	0	0	739,492
Repairs	110,509	14,956	55	0	125,520
Insurance	77,582	23,616	2,698	0	103,896
Rents	45,002	9,810	101	0	54,913
Other	69,537	72,742	0	1,937	144,216
Less capitalized expenses	<u>(90,406)</u>	<u>(55,276)</u>	<u>0</u>	<u>0</u>	<u>(145,682)</u>
Total operating expenses	<u>2,169,328</u>	<u>2,852,218</u>	<u>20,711</u>	<u>241,952</u>	<u>5,284,209</u>
Operating income (loss)	<u>84,751</u>	<u>803,404</u>	<u>109,726</u>	<u>(36,230)</u>	<u>961,651</u>
NON-OPERATING REVENUE (EXPENSES)					
Interest income	3,486	5,328	24,532	0	33,346
Interest expenses	(200,379)	0	(17,377)	0	(217,756)
Paying agent fees	<u>(1,335)</u>	<u>0</u>	<u>(3,033)</u>	<u>0</u>	<u>(4,368)</u>
Total non-operating revenue expenses	<u>(198,228)</u>	<u>5,328</u>	<u>4,152</u>	<u>0</u>	<u>(188,778)</u>
Income (loss) before contributions & transfers	(113,477)	808,732	113,848	(36,230)	772,873
Transfers from other funds	863,541	22,000	765,622	36,230	1,687,393
Transfers to other funds	<u>(544,000)</u>	<u>(1,077,315)</u>	<u>(14,969)</u>	<u>0</u>	<u>(1,636,284)</u>
Change in net assets	206,064	(246,583)	864,501	0	823,982
Total net assets, beginning	<u>9,049,168</u>	<u>2,094,286</u>	<u>1,185,999</u>	<u>0</u>	<u>12,329,453</u>
Total net assets, ending	<u>\$ 9,255,232</u>	<u>\$ 1,847,703</u>	<u>\$ 2,050,500</u>	<u>\$ 0</u>	<u>\$13,153,435</u>

See accompanying notes to financial statements.

CITY OF BATESVILLE
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Water And Sewer Fund	Gas Fund	Civic Center Fund	Non-Major Fund	Total Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers and users	\$ 2,225,595	\$ 3,665,987	\$ 600	\$ 212,242	\$ 6,104,424
Payments to suppliers for goods and services	(726,273)	(2,274,057)	(19,918)	(258,019)	(3,278,267)
Payments to employees for services	(761,419)	(375,367)	0	0	(1,136,786)
Net cash provided (used) by operating activities	737,903	1,016,563	(19,318)	(45,777)	1,689,371
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Transfers from other funds	869,994	22,000	0	11,467	903,461
Transfers to other funds	(544,000)	(1,085,627)	(14,969)	0	(1,644,596)
Net cash provided (used) by non-capital financing activities	325,994	(1,063,627)	(14,969)	11,467	(741,135)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES					
Acquisition and construction of capital assets	(636,632)	(84,594)	(4,100,955)	0	(4,822,181)
Proceeds from capital debt	0	0	0	0	0
Principal paid on capital debt	(568,918)	0	(1,836,820)	0	(2,405,738)
Interest paid on capital debt	(188,931)	0	(10,323)	0	(199,254)
Fees paid on capital debt	(1,335)	0	(3,033)	0	(4,368)
Transfers from other funds for capital assets	0	0	896,869	0	896,869
Transfers to other funds for capital assets	0	0	0	0	0
Net cash provided (used) by capital financing activities	(1,395,816)	(84,594)	(5,054,262)	0	(6,534,672)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income	3,486	5,328	24,532	0	33,346
Net increase (decrease) in cash and cash equivalents	(328,433)	(126,330)	(5,064,017)	(34,310)	(5,553,090)
Cash and cash equivalents, beginning	1,014,775	547,710	5,250,544	34,310	6,847,339
Cash and cash equivalents, ending	\$ 686,342	\$ 421,380	\$ 186,527	\$ 0	\$ 1,294,249
continued					

See accompanying notes to financial statements.

CITY OF BATESVILLE
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS - continued
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Water And Sewer Fund	Gas Fund	Civic Center Fund	Non-Major Fund	Total Enterprise Funds
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 84,751	\$ 803,404	\$ 109,726	\$ (36,230)	\$ 961,651
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	677,529	61,963	0	0	739,492
(Increase) decrease in accounts receivable	(3,008)	24,807	(129,837)	6,548	(101,490)
(Increase) decrease in inventories	15,051	80,417	0	0	95,468
(Increase) decrease in prepaid items	(16,008)	(1,199)	0	0	(17,207)
Increase (decrease) in accounts payable and accrued expenses	3,783	61,613	793	(16,095)	50,094
Increase (decrease) in customer deposits	(24,195)	(14,442)	0	0	(38,637)
Total adjustments	653,152	213,159	(129,044)	(9,547)	727,720
Net cash provided (used) by operating activities	\$ 737,903	\$ 1,016,563	\$ (19,318)	\$ (45,777)	\$ 1,689,371
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:					
Purchase of capital assets on account	\$ 36,939	\$ 0	\$ 983,703	\$ 0	\$ 1,020,642
Cost of disposed capital assets	\$ 64,811	\$ 1,400	\$ 0	\$ 0	\$ 66,211
Accumulated depreciation on disposed capital assets	\$ (64,811)	\$ (1,400)	\$ 0	\$ 0	\$ (66,211)

CITY OF BATESVILLE

NOTES TO FINANCIAL STATEMENTS

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Batesville, Mississippi (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The City does not apply FASB pronouncements or APB opinions issued after November 30, 1989. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

The City of Batesville is located in Panola County, Mississippi, was incorporated in 1866, and operates under an elected Mayor-Board of Aldermen form of government. The City provides the following services to the citizenry: general administration; water, sewer, gas and garbage disposal; police and fire protection; economic development; street repair and library services. The primary sources of revenues are property taxes, utility billings and sales taxes. Various criteria are applied in order to determine the various funds and activities which should be reported as part of the City. Such criteria includes oversight responsibility by the elected officials such as decision-making authority, accountability to the City, legal and fiscal responsibility, and inter-agency relationships. All agencies meeting the above criteria are included in the financial statements of the City. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations and so data from these units are combined with data of the primary government. Each blended component unit has a September 30 year end.

The Batesville Public Improvement Corporation is a non-profit organization formed in 1991 to construct and finance the new Batesville Library. The Corporation issued \$610,000 in "certificates of participation" which was used, along with a \$200,000 library grant obtained by the City, to construct and furnish a new library facility. The City's Mayor and Board of Aldermen also serve as the Corporation's Board of Directors, and the City was the Corporation's designated agent responsible for all phases of construction. During 1998, the Corporation incurred \$1,921,000 in notes payable to a commercial bank in order to fund the construction of a new post office. The building was leased to the Postal Service in 1998 and the lease was accounted for as a lease-sale. For financial reporting purposes, the Corporation is reported as a blended component unit as if it were part of the City's operations.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

The Batesville Housing Authority (B.H.A.) is a non-profit organization formed to provide subsidized public housing in accordance with federal legislation. The B.H.A. owns and operates the public housing facilities and is essentially supported by the rents and subsidies received under contract from the Department of Housing and Urban Development. While the City appoints the members of B.H.A.'s board, the City's accountability for B.H.A. does not extend beyond making the appointments. The B.H.A. is considered a related organization but not a part of the City's reporting entity because the City has no oversight responsibility or accountability for fiscal matters.

Tri-Lakes Medical Center (TLMC) is the product of an inter-local agreement between the City and Panola County. TLMC constructed a 70 bed replacement facility of the original hospital to provide full medical services to the surrounding communities. Three members of the TLMC's five member board of trustees are appointed by the County and two by the City with removal only for cause. The City has no equity interest in TLMC nor does it contribute to its operations. The City's financial interests in TLMC is the fact that the City guarantees the servicing of TLMC's bond issue up to \$100,000 per year should the bonds be defaulted on. TLMC has been determined to be a component unit of Panola County, issues separate financial statements, and none of its activity is reflected within the financial statements of the City. TLMC has experienced financial difficulties, and the County and City are pursuing the possibility of selling the facility to outside parties. Also see Note 12.

B. Government-wide and Fund Financial Statements

Government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is accountable.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments.

Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements and financial statements of City component units also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Major revenue sources susceptible to accrual include: sales and use taxes, tourism taxes, property taxes, franchise taxes and intergovernmental revenues. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. See Note 5 for information describing restricted assets.

Governmental Funds

Governmental Funds are those thorough which most governmental functions typically are financed. The City reports the following governmental funds:

- a) *General Fund* - The General Fund is the City's primary operating fund. It accounts for all financial resources of the City's general government, except those required to be accounted for in another fund.
- b) *Special Revenue Funds* - Special Revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes.
- c) *Debt Service Funds* - Debt Service Funds account for the servicing of general long-term debt.
- d) *Capital Projects Funds* - Capital Projects Funds account for the acquisition of fixed assets or construction of major capital projects (other than those financed by proprietary funds).

Proprietary Funds

Proprietary Funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The City reports the following proprietary funds:

- a) *Enterprise Funds* - Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business, primarily through user charges or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Fiduciary Funds

Fiduciary Funds account for assets held by the City in a trustee capacity or as an agent.

- a) *Agency Funds* – Agency Funds are custodial in nature and to not present results of operations or have a measurement focus.

D. Major Funds

For 2004, the City reports the following major governmental funds:

General Fund- reports as the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

Economic Development Revolving Fund- accounts for the activity of loans made to private concerns to promote industrial growth. The assets obtained from the servicing of these loans are restricted to the loan program.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

The city reports the following major enterprise funds:

Water and Sewer Fund- accounts for the operating activities of the City's water, sewer and sewage treatment facility utility services.

Gas Fund- accounts for the operating activities of the City's natural gas utility services.

Multi-Purpose Building Fund- accounts for the construction of and the operating activities of the City's multi-purpose building. This facility will be used to both promote the City and local business enterprises, and provide a place for civic and cultural events.

E. Cash and Cash Equivalents

Cash and cash equivalents are stated at cost, which approximates market. The City considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

F. Inventories and Prepaids

Inventories of the enterprise funds are stated at cost as determined by the moving average method. Inventory in the Economic Development Revolving Fund consists of land that was acquired in partial settlement of a loan. This land was recorded at its estimated fair value at the time of acquisition, and its sale proceeds will be restricted to the loan program. The other governmental funds record inventoriable items as expenses when purchased, thus inventories of supplies on hand are not reported as assets.

Prepaids record payments to vendors that benefit future reporting periods and are also reported on the consumption basis. Both inventories and prepaids are similarly reported in government-wide and fund financial statements.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

G. Capital Assets, Depreciation, and Amortization

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Proprietary and component unit capital assets are also reported in their respective financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with cost of \$1,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Following are the estimated useful lives used for computing depreciation:

Building and improvements	10-50 years
Equipment and fixtures	5-10 years
Water and sewerage plant	20-50 years
Gas system	10-40 years

H. Capitalized Interest

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. All repairs and maintenance are expensed as incurred. Interest costs charged to operations consist of the following:

Interest cost incurred	\$ 510,843
Decrease as a result of capitalizing interest as a cost of construction	<u>(293,087)</u>
Interest charges to operations	<u>\$ 217,756</u>

I. Long-term Debt, Deferred Debt Expense, and Bond Discounts/Premiums

In the government-wide and proprietary financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

J. Fund Equity

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes.

K. Compensated Employee Absences

Employees can accumulate vacation days and sick days up to a maximum at which point any additional days are lost. Employees are completely vested in vacation days up to the maximum in that they can take them or be paid for them upon termination. Sick days may be taken only for bona fide sickness and are lost upon termination of employment.

The City accrues compensated absences when vested. The current portions of the Governmental Funds' compensated absences liabilities are recorded as accrued liabilities. The current and noncurrent portions are recorded in the government-wide financial statements. The amount of vacation recognized as expense is the amount earned during the year.

L. Risk Management

The City carries commercial insurance with respect to risks including, but not limited to, property damage and personal injury. Insurance coverage remains relatively constant, and settlement amounts have not exceeded insurance coverage for the current year or the prior three years.

M. Estimates and Assumptions

A number of estimates and assumptions relating to the reporting of revenues, expense, expenditures, assets and liabilities, and the disclosure of contingent liabilities were used to prepare these financial statements in conformity with GAAP. Actual results could differ from those estimates.

N. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent February 1 of the following year. Delinquent taxes are considered fully collectible and therefore no allowance for uncollectible taxes is provided.

Note 2. BUDGET POLICY

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- A. Prior to September 30, the City Clerk submits to the Mayor and Aldermen a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenses and expenditures and the means of financing them.
- B. Public notice is given of the City's budget meetings being open to the public, so that a public hearing is conducted on the budget.
- C. The budget as submitted is reviewed by the Mayor and Aldermen and necessary revisions are made to the budget. Then the budget is approved prior to September 30.
- D. The budget is formally revised during July of each year or anytime a deficit is indicated.
- E. Budgetary comparisons are employed by management as a management control device during the year for all funds.
- F. Appropriations lapse at the end of each fiscal year.

Mississippi laws require that municipalities budget on a modified-cash basis. Claims that have been incurred prior to the end of the year and that are paid within 30 days are recorded under the accrual basis. Prior year claims that are paid after 30 days revert to the cash basis. All revenue is accounted for under the cash basis. The required budgetary basis is therefore not considered a generally accepted accounting principal. Governmental accounting requires that the "budget to actual" statements be prepared according to budgetary laws and the statement of revenues, expenditures, and fund balance be prepared according to the modified-accrual basis (GAAP). The major reconciling items between the budgetary and GAAP presentations are presented on the "budget to actual" statements.

Note 3. CASH AND INVESTMENTS

The City follows the practice of pooling the excess cash of all unrestricted funds, and investing the total in the most advantageous manner. Earnings of these investments are allocated among the participating funds based upon their relationship to the total investment. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

Note 3. CASH AND INVESTMENTS – continued

Deposits

The collateral for public entities' deposits in financial institutions is now held in the name of the State Treasurer under a program established by the Mississippi State Legislature. Under this program, the entity's funds are protected through a collateral pool administrated by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depositary Insurance Corporation.

- Category 1 - Insured
- Category 2 - Collateralized by the state public funds guaranty pool
- Category 3 - Uncollateralized

<u>Balance per Bank</u>	<u>Category</u>		
	<u>1</u>	<u>2</u>	<u>3</u>
\$ 5,736,535	\$ 426,684	\$ 5,309,851	\$ 0

These cash balances differ from the amounts shown in the financial statements because of in-transit items.

Investments

The City may invest its surplus funds in certificates of deposits, any bonds or direct obligations of the United States of America or the State of Mississippi, or in the bonds of any county, municipality or school district of Mississippi provided such bonds have been approved by a reputable bond attorney or have been validated by a decree of the Chancery Court. During 2004, the City invested only in bank certificates of deposit.

Market value of the City's investments (certificates of deposit) was determined by the specific identification method based upon current yields of comparable certificates of deposits.

Note 4. RECEIVABLES, UNCOLLECTABLES AND DEFERRED REVENUE

Enterprise Receivables

Significant receivables include amounts due from customers for utility services that are based on monthly cycle billings. These accounts receivables and related revenues are reported net of estimated uncollectibles. Customer deposits are obtained to assist in the collection of such receivables. Unbilled revenues at September 30, 2004 were approximately:

Water and Sewer	\$ 169,000
Gas	\$ 153,000

Note 4. RECEIVABLES, UNCOLLECTABLES AND DEFERRED REVENUE - continued

Tax and Intergovernmental Receivables

In the government-wide financial statements, the receivables and related revenues include all amounts due the City regardless of when cash is received. In the governmental fund financial statements, the revenues are offset and revenue recognition deferred by the amounts not received within 60 days of year end. Intergovernmental receivables is composed of:

Sales and tourism taxes	\$ 658,801
Homestead exemption	73,270
CDBG	18,637
County reimbursement	21,791
State grant	<u>39,992</u>
	<u>\$ 812,491</u>

Lease and Loan Receivables

During 1998, the City completed construction of the new post office building and entered into a lease-sale with the U.S. Postal Service. Minimum lease payments receivable at September 30, 2004 were:

	<u>Principal Portion</u>	<u>Interest Portion</u>	<u>Total Lease</u>
2005	\$ 74,419	\$ 150,901	\$ 225,320
2006	75,026	132,961	207,987
2007	81,658	126,329	207,987
2008	88,876	119,111	207,987
2009	96,732	111,255	207,987
Thereafter	<u>1,255,814</u>	<u>512,077</u>	<u>1,767,891</u>
	<u>\$1,672,525</u>	<u>\$1,152,634</u>	<u>\$2,825,159</u>

The grant proceeds of previous CDBG programs are being used to promote industrial growth by making loans to local concerns. All loan repayments will continue to be restricted to the Economic Development Program. Summaries of the gross loans at September 30, 2004 are:

	<u>Original Term</u>	<u>Due Date</u>	<u>Interest Rate</u>	<u>Loan Balance</u>
Loan #1	10 years	2009	0.00%	\$ 72,500
Loan #2	10 years	2007	7.25%	38,820
Loan #3	10 years	2008	3.00%	172,251
Loan #4	10 years	2011	3.00%	183,713
Loan #5	10 years	2011	3.00%	<u>141,833</u>
				609,117
				<u>Current portion, before allowance</u>
				(145,048)
				<u>Long-term portion, before allowance</u>
				<u>\$ 464,069</u>

Note 4. RECEIVABLES, UNCOLLECTABLES AND DEFERRED REVENUE - continued

The estimated amounts receivable for the years 2005 through 2009 are approximately:

2005	\$ 145,048
2006	72,556
2007	79,073
2008	68,319
2009	68,765
Thereafter	<u>175,356</u>
	<u>\$ 609,117</u>

The City also administers a program that provided funds to rehabilitate substandard housing for low income individuals. A portion of each loan is forgiven each year that the eligible party occupies the residence. The intent of the program was that loan payment was not expected unless there was a balance due upon the death or abandonment by the eligible party.

Total loans estimated to become due	\$ 152,467
Current portion	<u>(52,295)</u>
Long-term portion	<u>\$ 100,172</u>

Total City loans consisted of the following:

	<u>Current</u>	<u>Non-current</u>	<u>Total</u>
Post Office	\$ 74,419	\$1,598,106	\$ 1,672,525
Economic development	145,047	464,070	609,117
Home program	<u>52,295</u>	<u>100,172</u>	<u>152,467</u>
	271,761	2,162,348	2,434,109
Allowance for uncollectability	<u>(101,096)</u>	<u>(165,158)</u>	<u>(266,254)</u>
	<u>\$ 170,665</u>	<u>\$1,997,190</u>	<u>\$ 2,167,855</u>

Management monitors the adequacy of the allowance for loan losses in order to maintain it at a level deemed adequate to absorb potential losses. Management's determination of the allowance is based on the evaluation of the loan portfolio, past experience, current economic conditions and other relevant factors. Additions to the allowance account are charged against earnings. Loans which in the opinion of management are uncollectible are charged to the allowance account. For 2004, the City had an allowance for loan losses of \$266,254.

Note 4. RECEIVABLES, UNCOLLECTABLES AND DEFERRED REVENUE – continued

The following is a summary of information pertaining to impaired loans at September 30, 2004:

Impaired loans without a valuation allowance	\$ 0
Impaired loans with a valuation allowance	<u>355,964</u>
Total impaired loans	<u>\$ 355,964</u>
Average investment in impaired loans	<u>\$ 361,644</u>
Interest income recognized on impaired loans	<u>\$ 10,340</u>

Note 5. RESTRICTED ASSETS

Certain assets are restricted for construction funded through long-term debt, federal grants and debt service. In addition, certain assets are held as deposits and are only potentially available for City use.

The bond resolutions have several requirements of the City concerning such items as the maintenance and segregation of accounts and the collection and application of the water and sewerage system revenues. The resolutions stipulated the accumulation of certain funds for the protection of the bondholder, and in 2004 the City had the following restricted cash:

	<u>General</u>	<u>Water and Sewerage</u>	<u>Gas</u>	<u>Other</u>
Capital additions	\$238,215	\$ 0	\$ 0	\$ 1,560
Depreciation fund	0	15,000	0	0
Contingent fund	0	15,000	0	0
Debt service	0	190,368	0	25,902
Customer deposits	0	115,900	179,963	0
Building compliance bonds	33,684	0	0	0
Excess tax collection and other	0	0	0	65,823
Economic development	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,433,899</u>
	<u>\$271,899</u>	<u>\$336,268</u>	<u>\$ 179,963</u>	<u>\$2,527,184</u>

Note 6. CAPITAL ASSETS

The following table provides a summary of changes in capital assets during 2004:

	<u>Not Depreciated</u>		<u>Depreciated</u>			
	<u>Land</u>	<u>Construction in Progress</u>	<u>Buildings and Improvements</u>	<u>Infrastructure</u>	<u>Furniture Plant and Equipment</u>	<u>Total</u>
Governmental Activities						
Balance, 9-30-03	\$ 1,115,933	\$ 725,937	\$ 4,116,426	\$ 14,862,289	\$ 4,412,902	\$ 25,233,487
Increases	60,000	1,023,167	85,874	423,695	272,082	1,864,818
Decreases	0	0	0	0	(87,487)	(87,487)
Transfers	<u>0</u>	<u>(1,634,141)</u>	<u>216,456</u>	<u>1,417,685</u>	<u>1,701</u>	<u>1,701</u>
Balance, 9-30-04	<u>1,175,933</u>	<u>114,963</u>	<u>4,418,756</u>	<u>16,703,669</u>	<u>4,599,198</u>	<u>27,012,519</u>
Accumulated Depreciation						
Balance, 9-30-03	0	0	1,305,249	7,038,685	2,837,544	11,181,478
Increases	0	0	122,200	633,899	391,929	1,148,028
Decreases	0	0	0	0	(80,507)	(80,507)
Transfers	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,701</u>	<u>1,701</u>
Balance, 9-30-04	<u>0</u>	<u>0</u>	<u>1,427,449</u>	<u>7,672,584</u>	<u>3,150,667</u>	<u>12,250,700</u>
Capital Assets, Net	<u>\$ 1,175,933</u>	<u>\$ 114,963</u>	<u>\$ 2,991,307</u>	<u>\$ 9,031,085</u>	<u>\$ 1,448,531</u>	<u>\$ 14,761,819</u>
Business type Activities						
Balance, 9-30-03	\$ 438,500	\$ 4,252,510	\$ 134,256	\$ 23,127,243	\$ 1,127,701	\$ 29,080,210
Increases	0	5,080,805	2,224	559,330	200,464	5,842,823
Decreases	0	0	0	0	(64,510)	(64,510)
Transfers	<u>0</u>	<u>(6,199)</u>	<u>0</u>	<u>6,199</u>	<u>(1,701)</u>	<u>(1,701)</u>
Balance, 9-30-04	<u>438,500</u>	<u>9,327,116</u>	<u>136,480</u>	<u>23,692,772</u>	<u>1,261,954</u>	<u>34,856,822</u>
Accumulated Depreciation						
Balance, 9-30-03	0	0	74,504	8,982,552	972,415	10,029,471
Increases	0	0	8,013	653,403	68,826	730,242
Decreases	0	0	0	0	(64,510)	(64,510)
Transfers	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,701)</u>	<u>(1,701)</u>
Balance, 9-30-04	<u>0</u>	<u>0</u>	<u>82,517</u>	<u>9,635,955</u>	<u>975,030</u>	<u>10,693,502</u>
Capital Assets, Net	<u>\$ 438,500</u>	<u>\$ 9,327,116</u>	<u>\$ 53,963</u>	<u>\$ 14,056,817</u>	<u>\$ 286,924</u>	<u>\$ 24,163,320</u>
Total Capital Assets, Net	<u>\$ 1,614,433</u>	<u>\$ 9,442,079</u>	<u>\$ 3,045,270</u>	<u>\$ 23,087,902</u>	<u>\$ 1,735,455</u>	<u>\$ 38,925,139</u>

Note 6. CAPITAL ASSETS – continued

Construction in progress is composed of the following:

	Spent to <u>9-30-04</u>	Estimated to <u>Complete</u>
Governmental Activities:		
Parks- downtown square	\$ 114,963	\$ 175,000
Business Activities:		
Civic Center building	<u>9,327,114</u>	<u>503,000</u>
Total	<u>\$9,442,077</u>	<u>\$ 678,000</u>

The construction projects included in governmental activities are primarily funded through grants and revenue debt issues.

The construction projects included in business-type activities are primarily funded through revenue debt issues and tourism taxes.

Depreciation expense was charged to City functions as follows:

<u>Governmental Activities</u>		<u>Business-type Activities</u>	
General	\$ 66,330	Water & Sewer	\$ 668,279
Police	143,177	Gas	61,963
Code	30		
Court	5,398		
Fire	168,604		
Streets	680,366		
Sanitation	2,083		
Parks	28,290		
Library	54,750		

Note 7. LONG-TERM DEBT

The City's long-term debt is made up of general obligation bonds, revenue bonds, notes and capitalized lease obligations. General obligation bonds are direct obligations, and pledge the full faith and credit of the City. Revenue debt is payable solely from the revenues of the underlying facilities. The City also incurs debt in the form of various notes and capital leases which are to be repaid through daily operations.

The City is subject to a general statutory debt limitation under which no City in the State may incur general obligation bonded indebtedness in the amount which will

Note 7. LONG-TERM DEBT – continued

exceed 15 percent of the assessed value of the taxable property within such City according to the last completed assessment for taxation.

In computing general obligation bonded indebtedness for purposes of such 15 percent limitation, there may be deducted all bonds or other evidences of indebtedness issued for school, water and sewerage systems, gas and light and power purposes and for construction of special improvements primarily chargeable to the property benefited, or for the purpose of paying a City's proportion of any betterment program, a portion of which is primarily chargeable to the property benefited. However, in no case may a City contract any indebtedness payable in whole or in part from proceeds of ad valorem taxes which, when added to all of its outstanding general obligation indebtedness, both bonded and floating, exceeds 20 percent of the assessed value of the taxable property within such City.

In arriving at the limitations set forth above, bonds issued for school purposes, bonds payable exclusively from the revenues of any municipally- owned utility, general obligation industrial bonds issued under the provisions of Sections 57-1-1 to 57-1-51, Mississippi Code of 1972, Annotated, Revised 1989, and special assessment improvement bonds issued under the provisions of Sections 21-41-1 to 21-41-53, Mississippi Code of 1972, Annotated, Revised 1990, are not included. Also excluded from both limitations are contract obligations subject to annual appropriations.

The margin for additional debt under the above debt limits as of September 30, 2004 is approximately:

<u>15% Limit</u>	<u>20% Limit</u>
<u>\$8,020,000</u>	<u>\$11,062,000</u>

Note 7. LONG-TERM DEBT – continued

The following is a summary of changes in long-term debt for the year ended September 30, 2004:

	<u>Balance</u> <u>9-30-03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>9-30-04</u>	<u>Due within</u> <u>One year</u>
Governmental Activities:					
General Obligation bonds	\$ 2,275,000	\$ 0	\$ 210,000	\$ 2,065,000	\$ 220,000
Special Assessment bonds	390,000	0	70,000	320,000	75,000
Tax Increment Limited					
Obligation bonds	0	750,000	35,000	715,000	40,000
CAP loans	108,956	0	30,411	78,545	32,248
Capitalized leases-					
police cars	94,428	27,340	47,136	74,632	31,598
Blended Component unit:					
Notes payable Post Office	1,644,597	0	62,325	1,582,272	68,239
Compensated absences	<u>135,076</u>	<u>25,006</u>	<u>0</u>	<u>160,082</u>	<u>14,477</u>
Total Governmental	<u>4,648,057</u>	<u>802,346</u>	<u>454,872</u>	<u>4,995,531</u>	<u>481,562</u>
Business-type Activities:					
Revenue bonds:					
Major enterprise fund					
Water and sewer	<u>1,650,000</u>	<u>0</u>	<u>300,000</u>	<u>1,350,000</u>	<u>310,000</u>
Deferred refunding loss:					
Major enterprise fund					
Water and sewer	<u>(68,800)</u>	<u>0</u>	<u>(17,036)</u>	<u>(51,764)</u>	<u>(17,036)</u>
Notes Payable:					
Major enterprise fund					
Water and sewer	3,631,622	0	268,918	3,362,704	278,234
Civic Center building	<u>7,337,000</u>	<u>0</u>	<u>249,500</u>	<u>7,087,500</u>	<u>264,500</u>
Total notes payable	<u>10,968,622</u>	<u>0</u>	<u>518,418</u>	<u>10,450,204</u>	<u>542,734</u>
Compensated Absences:					
Major enterprise fund					
Water and sewer	34,954	3,010	0	37,964	0
Gas	<u>17,459</u>	<u>633</u>	<u>0</u>	<u>18,092</u>	<u>0</u>
Total compensated absences	<u>52,413</u>	<u>3,643</u>	<u>0</u>	<u>56,056</u>	<u>0</u>
Total business type	<u>12,602,235</u>	<u>3,643</u>	<u>801,382</u>	<u>11,804,496</u>	<u>835,698</u>
Total long-term debt	<u>\$17,250,292</u>	<u>\$ 805,989</u>	<u>\$ 1,256,254</u>	<u>\$16,800,027</u>	<u>\$ 1,317,260</u>

Note 7. LONG-TERM DEBT – continued
Detail of bonds and notes outstanding:

	Interest Rates	Issue Date	Maturity Date	Original Amount	<u>September 30, 2004 Balance</u>	
					<u>Governmental Activities</u>	<u>Business-type Activities</u>
General Obligations Bonds:						
General Obligation						
Refunding Bonds	4.30% to 4.75%	05-15-98	02-01-12	\$ 3,000,000	\$ 1,775,000	\$ 0
General Obligation						
Bonds-Series 2001	4.75%	12-01-01	12-01-11	350,000	290,000	0
Special Assessment Public						
Improvement Bonds	5.00% to 5.30%	04-01-93	04-01-08	900,000	320,000	0
Revenue Bonds:						
Combined Water and Sewer System						
Revenue Refunding						
Bonds-Series 1999	3.90% to 4.40%	06-24-99	02-01-10	2,625,000	0	1,350,000
Tax Increment Limited						
Obligation Bond	3.50% to 4.50%	10-01-03	10-01-17	750,000	715,000	0
Other Issued Debt:						
Note Payable:						
Mississippi Development Bank	1.75% to 5.00%	09-30-02	07-01-18	7,250,000	0	7,015,000
State of Mississippi	4.00%	08-01-93	05-01-13	4,074,135	0	2,190,805
State of Mississippi	3.00%	09-09-99	09-01-19	211,650	0	167,570
State of Mississippi	3.00%	03-07-00	03-01-20	395,853	0	324,557
State of Mississippi	4.00%	03-26-97	01-26-07	281,459	78,545	0
State of Mississippi	3.00%	08-07-01	08-01-16	269,358	0	222,056
State of Mississippi	3.00%	08-03-01	03-01-22	200,000	0	180,223
State of Mississippi	2.00%	05-16-03	05-01-23	294,848	0	277,493
Bank	8.50%	11-07-96	11-01-17	1,921,000	1,582,271	0
Economic Development Fund	0%	11-02-99	11-01-09	145,000	0	72,500
Capital Lease – 2 Police Cars	5.25%	04-26-04	04-26-07	27,341	27,341	0
Capital Lease – 3 Police Cars	5.85%	04-11-03	04-11-06	40,820	27,979	0
Capital Lease – 2 Police Cars	6.20%	04-11-03	04-11-06	28,132	<u>19,313</u>	<u>0</u>
					<u>\$ 4,835,449</u>	<u>\$ 11,800,204</u>

Note 7. LONG-TERM DEBT – continued

The annual debt service requirements of long-term debt as of September 30, 2004 are as follows:

Governmental Activities

	<u>General Obligation Bonds</u>		<u>Special Assessment Bond</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 220,000	\$ 89,107	\$ 75,000	\$ 14,820
2006	230,000	79,165	80,000	10,845
2007	240,000	68,726	80,000	6,625
2008	250,000	57,770	85,000	2,253
2009	260,000	46,261	0	0
2010-2014	865,000	62,209	0	0
2015-2019	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Totals	<u>\$ 2,065,000</u>	<u>\$ 403,238</u>	<u>\$ 320,000</u>	<u>\$ 34,543</u>

	<u>Revenue Bonds</u>		<u>Notes and Leases</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 40,000	\$ 29,365	\$ 132,084	\$ 138,106
2006	40,000	27,565	140,971	129,220
2007	45,000	25,765	103,464	119,861
2008	45,000	23,740	87,658	112,434
2009	50,000	21,715	95,728	104,363
2010-2014	285,000	79,697	621,288	379,169
2015-2019	<u>210,000</u>	<u>18,243</u>	<u>554,256</u>	<u>79,967</u>
Totals	<u>\$ 715,000</u>	<u>\$ 226,090</u>	<u>\$ 1,735,449</u>	<u>\$ 1,063,120</u>

	<u>Total Debt Issued</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 467,084	\$ 271,398
2006	490,971	246,795
2007	468,464	220,977
2008	467,658	196,197
2009	405,728	172,339
2010-2014	1,771,288	521,075
2015-2019	<u>764,256</u>	<u>98,210</u>
Totals	<u>\$ 4,835,449</u>	<u>\$ 1,726,991</u>

Note 7. LONG-TERM DEBT – continued

Business-Type Activities

	Revenue Bonds		Notes Payable	
	Major Enterprise Fund		Major Enterprise Fund	
	Water and Sewer		Water and Sewer	
	Principal	Interest	Principal	Interest
2005	\$ 310,000	\$ 50,816	\$ 278,234	\$ 115,290
2006	330,000	35,575	288,798	104,726
2007	165,000	27,221	299,772	93,752
2008	175,000	19,952	311,172	84,351
2009	180,000	12,275	323,011	70,512
2010-2014	190,000	4,180	1,399,892	168,334
2015-2019	0	0	359,043	36,073
2020-2024	<u>0</u>	<u>0</u>	<u>102,782</u>	<u>3,502</u>
	<u>\$ 1,350,000</u>	<u>\$ 150,019</u>	<u>\$ 3,362,704</u>	<u>\$ 676,540</u>

	Notes Payable		Total	
	Civic Center Building		Issued Debt	
	Principal	Interest	Principal	Interest
2005	\$ 264,500	\$ 299,298	\$ 852,734	\$ 465,404
2006	274,500	290,548	893,298	430,849
2007	289,500	281,447	754,272	402,420
2008	304,500	271,822	790,672	376,125
2009	319,500	261,092	822,511	343,879
2010-2014	1,760,000	1,125,909	3,349,892	1,298,423
2015-2019	2,240,000	721,030	2,599,043	757,103
2020-2024	<u>1,635,000</u>	<u>157,700</u>	<u>1,737,782</u>	<u>161,202</u>
Total	<u>\$ 7,087,500</u>	<u>\$ 3,408,846</u>	<u>\$11,800,204</u>	<u>\$ 4,235,405</u>

The revenues of the gas system are pledged as the primary source of retirement funds for the City's General Obligation Refunding Bonds. Also see Note 5.

During 2000, the City issued a \$500,000 non-interest bearing note, due in 2015, to the State of Mississippi. \$191,815 of the initial proceeds were used to purchase U.S. Treasury strips maturing 2014 and placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the note. As a result, the note is considered defeased and no liability is reflected by the City. The balance of the proceeds was used in the construction of the incubator facility. At September 30, 2004, the balance of the defeased debt was \$500,000.

Note 8. INTERFUND TRANSACTIONS

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources. Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and assets acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund or component unit to support and simplify

Note 8. INTERFUND TRANSACTIONS - continued

the administration of various projects or programs. The governmental and business type funds financial statements generally reflect such transactions as transfers. Balances at September 30, 2004, were:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 626,002	\$ 158,417
Non-major governmental funds	314,062	832,756
Water and Sewer fund	863,541	544,000
Gas fund	22,000	1,077,315
Civic Center fund	765,622	14,969
Non-major business-type funds	<u>36,230</u>	<u>0</u>
	<u>\$ 2,627,457</u>	<u>\$ 2,627,457</u>

Individual fund interfund receivable and payable balances at September 30, 2004 arising from these transactions were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General fund	\$ 6,194	\$ 154,907
Economic development fund	0	186,072
Non-major governmental funds	1,612	2,002
Water and sewer fund	41,279	620
Gas fund	98,670	6,673
Civic Center fund	182,500	0
Non-major business-type funds	<u>57,873</u>	<u>37,854</u>
	<u>\$ 388,128</u>	<u>\$ 388,128</u>

The government-wide statement of activities eliminate transfers as reported within the segregated governmental and business-type activities columns. Only transfers *between* the two columns appear in this statement.

Note 9. DEFINED BENEFIT PENSION PLAN

Plan Description – The City of Batesville contributes to the Public Employees’ Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy – PERS members are required to contribute 7.25% of their annual covered salary and City of Batesville is required to contribute at an actuarially

Note 9. DEFINED BENEFIT PENSION PLAN - continued

determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City of Batesville's contributions to PERS for the years ending September 30, 2004, 2003, and 2002 were \$352,463, \$338,798, and \$311,536, respectively, equal to the required contributions for each year.

Note 10. OPERATING LEASES

The City periodically leases various equipment on monthly or as-needed basis; but has no long-term, non-cancelable leases. Rental expense for 2004 was:

General Fund	\$	57,743
Water and Sewer fund		45,002
Gas fund		9,810
Civic Center fund		<u>101</u>
	\$	<u>112,656</u>

Note 11. COMMITMENTS AND CONTINGENCIES

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City, after consultation with counsel, that resolution of these matters will not have a material adverse effect on the financial condition of the government.

In the normal course of operations, the City receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

As addressed in Note 1, the City guarantees the servicing of the new hospital's bond issue up to \$100,000 annually, as does the County. At September 30, 2004, the bonds had a balance of approximately \$19.5 million, but none of the debt is reported by the City. It is felt that the value of the hospital's underlying assets would essentially cover all the balance of the outstanding bonds.

As addressed in Note 6, the City has several expansion programs in progress that require commitment of the City's financial resources.

Note 12. CORRECTION OF ERROR

During 2004, it was determined that \$25,688 in bond issue costs were erroneously expensed in 2003 by the General fund for the government-wide presentation rather than being capitalized. As a result, the ending net assets and the change in net assets for 2003 were understated.

Note 12. CORRECTION OF ERROR- continued

It was also determined that the recording of land received in partial settlement of an Economic Development Fund loan to an outside entity was not fully made within the proper fund along with the related loan balance. Rather than the City's Civic Center Fund reflecting the entire block of land received and recording the assumption of the note, it was determined that the Economic Development Fund should have initially reflected all of the land received and the cancellation of the original note receivable. The fund should then have recorded the sale and financing of the parcel of land being utilized by the Civic Center fund, and reflected the remainder of the land as an inventory item since the land is held for sale. In addition, the non-current portion of the Economic Development Fund's loans receivable should have been deferred for governmental financial statement purposes only. While these corrections did not have any impact upon the City's net assets or change in net assets, the ending governmental fund balances for 2003 were overstated by \$351,153.

**CITY OF BATESVILLE
GENERAL FUND
STATEMENT OF RECEIPTS, EXPENDITURES AND CHANGES IN FUND
BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
YEAR ENDED SEPTEMBER 30, 2004**

	Original 2004 Budget	Increase (Decrease)	Amended 2004 Budget	Total Actual	Favorable (Unfavorable) Variance
REVENUES					
Ad valorem Taxes	\$ 1,757,000	\$ (92,000)	\$ 1,665,000	\$ 1,625,239	\$ (39,761)
Court Fines and Bonds	3,000	(1,000)	2,000	891	(1,109)
Fire Protection	41,000	0	41,000	37,847	(3,153)
In Lieu of Taxes	255,000	4,000	259,000	268,735	9,735
Interest Earned	17,000	(5,000)	12,000	10,929	(1,071)
Licenses	68,000	0	68,000	62,914	(5,086)
Park and Recreation Fees	25,000	0	25,000	24,272	(728)
Permits	68,000	(11,000)	57,000	56,200	(800)
Police Fines	285,000	(15,000)	270,000	264,772	(5,228)
Refunds and Rebates	82,000	14,000	96,000	84,537	(11,463)
State of MS – Sales Tax	2,900,000	0	2,900,000	3,397,904	497,904
State of MS – Streets	20,000	(6,000)	14,000	10,306	(3,694)
Taxes – Franchise	202,000	(2,000)	200,000	217,690	17,690
Taxes – Road	230,000	10,000	240,000	242,466	2,466
Rents and Miscellaneous	22,000	99,100	121,100	93,228	(27,872)
Grants	<u>1,915,000</u>	<u>(1,053,500)</u>	<u>861,500</u>	<u>433,415</u>	<u>(428,085)</u>
Total receipts	<u>7,890,000</u>	<u>(1,058,400)</u>	<u>6,831,600</u>	<u>6,831,345</u>	<u>(255)</u>
EXPENDITURES					
General:					
Personnel Services	473,000	4,000	477,000	463,742	13,258
Supplies	31,000	(5,500)	25,500	10,075	15,425
Other Services and Charges	531,000	36,000	567,000	299,742	267,258
Capital Outlay	<u>55,000</u>	<u>(45,000)</u>	<u>10,000</u>	<u>3,837</u>	<u>6,163</u>
	<u>1,090,000</u>	<u>(10,500)</u>	<u>1,079,500</u>	<u>777,396</u>	<u>302,104</u>
Police Department:					
Personnel Services	2,006,000	(245,000)	1,761,000	1,683,957	77,043
Supplies	139,500	(18,000)	121,500	97,108	24,392
Other Services and Charges	739,000	20,800	759,800	732,522	27,278
Capital Outlay	670,500	(370,500)	300,000	304,686	(4,686)
Debt Retirement	<u>30,000</u>	<u>60,000</u>	<u>90,000</u>	<u>52,851</u>	<u>37,149</u>
	<u>3,585,000</u>	<u>(552,700)</u>	<u>3,032,300</u>	<u>2,871,124</u>	<u>161,176</u>

continued

**CITY OF BATESVILLE
GENERAL FUND
STATEMENT OF RECEIPTS, EXPENDITURES AND CHANGES IN FUND
BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-continued
YEAR ENDED SEPTEMBER 30, 2004**

	Original 2004 Budget	Increase (Decrease)	Amended 2004 Budget	Total Actual	Favorable (Unfavorable) Variance
City Code:					
Personnel Services	\$ 192,000	\$ (16,000)	\$ 176,000	\$ 156,407	\$ 19,593
Supplies	14,000	(4,000)	10,000	7,297	2,703
Other Services and Charges	48,000	(12,000)	36,000	25,808	10,192
Capital Outlay	<u>15,000</u>	<u>(9,000)</u>	<u>6,000</u>	<u>4,423</u>	<u>1,577</u>
	<u>269,000</u>	<u>(41,000)</u>	<u>228,000</u>	<u>193,935</u>	<u>34,065</u>
City Court:					
Personnel Services	124,000	16,000	140,000	120,553	19,447
Supplies	6,000	1,000	7,000	4,663	2,337
Other Services and Charges	46,000	0	46,000	41,414	4,586
Capital Outlay	<u>11,000</u>	<u>(7,000)</u>	<u>4,000</u>	<u>1,490</u>	<u>2,510</u>
	<u>187,000</u>	<u>10,000</u>	<u>197,000</u>	<u>168,120</u>	<u>28,880</u>
Fire Department:					
Personnel Services	609,000	46,000	655,000	587,877	67,123
Supplies	36,000	(6,000)	30,000	23,594	6,406
Other Services and Charges	165,000	(10,000)	155,000	136,497	18,503
Capital Outlay	326,500	(281,500)	45,000	42,492	2,508
Debt Retirement	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>1,136,500</u>	<u>(251,500)</u>	<u>885,000</u>	<u>790,460</u>	<u>94,540</u>
Street Maintenance:					
Personnel Services	609,000	115,000	724,000	630,378	93,622
Supplies	80,000	(4,000)	76,000	45,762	30,238
Other Services and Charges	296,000	1,002,000	1,298,000	1,099,763	198,237
Capital Outlay	2,620,000	(1,659,000)	961,000	325,573	635,427
Debt Retirement	<u>35,000</u>	<u>66,000</u>	<u>101,000</u>	<u>34,233</u>	<u>66,767</u>
	<u>3,640,000</u>	<u>(480,000)</u>	<u>3,160,000</u>	<u>2,135,709</u>	<u>1,024,291</u>

continued

**CITY OF BATESVILLE
GENERAL FUND
STATEMENT OF RECEIPTS, EXPENDITURES AND CHANGES IN FUND
BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-continued
YEAR ENDED SEPTEMBER 30, 2004**

	Original 2004 Budget	Increase (Decrease)	Amended 2004 Budget	Total Actual	Favorable (Unfavorable) Variance
Public Health and Sanitation:					
Personnel Services	\$ 129,000	\$ (4,600)	\$ 124,400	\$ 126,432	\$ (2,032)
Supplies	21,000	(4,000)	17,000	13,678	3,322
Other Services and Charges	36,000	(6,000)	30,000	28,002	1,998
Capital Outlay	<u>5,000</u>	<u>(1,000)</u>	<u>4,000</u>	<u>14,323</u>	<u>(10,323)</u>
	<u>191,000</u>	<u>(15,600)</u>	<u>175,400</u>	<u>182,435</u>	<u>(7,035)</u>
Parks and Recreation:					
Personnel Services	151,400	(11,000)	140,400	148,900	(8,500)
Supplies	27,000	(6,000)	21,000	20,148	852
Other Services and Charges	125,000	365,000	490,000	139,146	350,854
Capital Outlay	<u>87,000</u>	<u>(75,000)</u>	<u>12,000</u>	<u>114,613</u>	<u>(102,613)</u>
	<u>390,400</u>	<u>273,000</u>	<u>663,400</u>	<u>422,807</u>	<u>240,593</u>
Library:					
Personnel Services	100,000	0	100,000	99,167	833
Supplies	12,000	(2,000)	10,000	4,586	5,414
Other Services and Charges	95,000	14,000	109,000	101,408	7,592
Capital Outlay	59,000	(30,000)	29,000	12,835	16,165
Debt Retirement	<u>46,000</u>	<u>(1,000)</u>	<u>45,000</u>	<u>37,600</u>	<u>7,400</u>
	<u>312,000</u>	<u>(19,000)</u>	<u>293,000</u>	<u>255,596</u>	<u>37,404</u>
Total General Fund Expenditures	<u>10,800,900</u>	<u>(1,087,300)</u>	<u>9,713,600</u>	<u>7,797,582</u>	<u>1,916,018</u>
Excess Receipts (Expenditures)	<u>(2,910,900)</u>	<u>(28,900)</u>	<u>(2,882,000)</u>	<u>(966,237)</u>	<u>1,915,763</u>

continued

**CITY OF BATESVILLE
GENERAL FUND
STATEMENT OF RECEIPTS, EXPENDITURES AND CHANGES IN FUND
BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-continued
YEAR ENDED SEPTEMBER 30, 2004**

	Original 2004 Budget	Increase (Decrease)	Amended 2004 Budget	Total Actual	Favorable (Unfavorable) Variance
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	\$ 810,200	\$ 380,917	\$ 1,191,117	\$ 670,283	\$ (520,834)
Interfund transfers (out)	(111,175)	(1,098,975)	(1,210,150)	(152,437)	(1,057,713)
Bond and note proceeds	<u>825,000</u>	<u>1,175,000</u>	<u>2,000,000</u>	<u>777,341</u>	<u>(1,222,659)</u>
Net other financing sources (uses)	<u>1,524,025</u>	<u>456,942</u>	<u>1,980,967</u>	<u>1,295,187</u>	<u>(685,780)</u>
Excess (deficiency) of receipts and other sources over (under) expenditures and other uses	(1,386,875)	485,842	(901,033)	328,950	1,229,983
Fund balance, beginning	<u>1,132,526</u>	<u>0</u>	<u>1,132,526</u>	<u>1,132,526</u>	<u>0</u>
Fund balance, ending	<u>\$ (254,349)</u>	<u>\$ 485,842</u>	<u>\$ 231,493</u>	1,461,476	<u>\$ 1,229,983</u>
Adjustments to GAAP basis:					
Accrued revenues				64,068	
Accounts payables paid after October				<u>(93,907)</u>	
Fund balance, ending (GAAP basis)				<u>\$ 1,431,637</u>	

WILLIAM H. POLK & CO.

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AUSTIN E. JOYNER, C.P.A.
MANDY ALFORD, C.P.A.

105 PUBLIC SQUARE
BATESVILLE, MISSISSIPPI 38606
TELEPHONE (662) 563-8661
FAX (662) 563-8666

MEMBERS:
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DIVISION FOR CPA FIRMS PRIVATE COMPANIES PRACTICE SECTION

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and Board of Aldermen
City of Batesville, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Batesville, Mississippi, as of and for the year ended September 30, 2004, which collectively comprise the City of Batesville, Mississippi's basic financial statements and have issued our report thereon dated January 17, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City of Batesville, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an instance of noncompliance that we have reported in the separate report on compliance with the office of the state auditor.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Batesville, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned duties. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Board, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Wm. H. Polk & Co.

January 17, 2005

WILLIAM H. POLK & CO.
CERTIFIED PUBLIC ACCOUNTANTS

A Professional Association

WILLIAM H. POLK, C.P.A.
MICKEY R. ALDRIDGE, C.P.A.
ROBERT E. CRAWFORD, C.P.A.

FRANCES LIVINGSTON, C.P.A.
AMY D. BYARS, C.P.A.
ROBERT W. WADSWORTH, C.P.A.
RACHEL M. KIRKLAND, C.P.A.
AUSTIN E. JOYNER, C.P.A.
MANDY ALFORD, C.P.A.

105 PUBLIC SQUARE
BATESVILLE, MISSISSIPPI 38606
TELEPHONE (662) 563-8661
FAX (662) 563-8666

MEMBERS:
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
MISSISSIPPI SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
DIVISION FOR CPA FIRMS PRIVATE COMPANIES PRACTICE SECTION

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE
REQUIREMENTS OF THE OFFICE OF THE STATE AUDITOR, AS
SET FORTH IN THE MUNICIPAL COMPLIANCE QUESTIONNAIRE

Honorable Mayor and Board of Aldermen
City of Batesville, Mississippi

We have audited the financial statements of City of Batesville, Mississippi as of and for the year ended September 30, 2004, and have issued our report thereon dated January 17, 2005.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of those procedures and our audit of the financial statements disclosed the following instance of noncompliance with state laws and regulations. Our findings and recommendations and your responses are as follows:

Finding: Code section 21-35B17 prohibits the board from approving any claims in excess of the final approved budget and the clerk is also prohibited from issuing warrants for the same claims. While it was apparent that the City extensively evaluated its budgets during the amending process, there were two instances of fund expenditures exceeding the budgeted line-item by minor amounts.

Recommendation: Greater care should be taken in reviewing the budgeted vs. actual comparisons, and amending the budget as circumstances require.

Response: We concur, and will take greater care in our budget amendment procedures.

The Office of the State Auditor or a public accounting firm will review, on a subsequent year's audit engagement, the findings in this report to ensure that corrective action has been taken.

This report is intended solely for the use of the City Board, management, and the Office of the State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

Wm. H. Polk & Co.

January 17, 2005